



NORTH CAROLINA GENERAL ASSEMBLY

Session 2021

Fiscal Analysis Memorandum

CONFIDENTIAL

Requestor: Senators Daniel, Rabon, and Newton
Analyst(s): Denise Canada, Rodney Bizzell
RE: PCS to SB388, Property/Sales Tax Chgs for Farmers/Wildlife

SUMMARY TABLE

FISCAL IMPACT OF PCS to SB388

| | <u>FY 2021-22</u> | <u>FY 2022-23</u> | <u>FY 2023-24</u> | <u>FY 2024-25</u> | <u>FY 2025-26</u> |
|----------------------------|--|-------------------|-------------------|-------------------|-------------------|
| State Impact | | | | | |
| General Fund Revenue | Expected minimal revenue loss - refer to Fiscal Analysis section | | | | |
| Less Expenditures | - | - | - | - | - |
| General Fund Impact | | | | | |

NET STATE IMPACT

Local Impact

| | | | | | |
|-------------------------|--|---|---|---|---|
| Local Revenue | Expected minimal revenue loss - refer to Fiscal Analysis section | | | | |
| Less Local Expenditures | - | - | - | - | - |

NET LOCAL IMPACT

FISCAL IMPACT SUMMARY

The PCS would reduce State and local Sales tax revenue and local property tax revenue by a) exempting various items from State and local sales taxes, and b) creating a property tax reduction program for certain land used for wildlife conservation purposes.

FISCAL ANALYSIS

Part 1. Expand Sales Tax Exemption for Qualifying Farmers

Part 1 would minimally reduce State and local Sales tax revenue.



Background

Under G.S. 105-164.13E, certain items purchased by a qualifying farmer for use in farming are exempt from State and local sales and use taxes. The current exemption includes a variety of farm-related items such as farm machinery, electricity if metered separately, and seeds. Under G.S. 105-164.13E.(a), a “qualifying farmer” is a person whose annual income from farming operations averages at least \$10,000 per year.

The PCS would expand this exemption so that items purchased by a qualifying farmer for use in the farmer's zoo operations would also be exempt.

Fiscal Impact

Data from the Department of Revenue shows that the current sales and use tax exemptions for qualifying farmers under G.S. 105-164.13E cost the State just over \$297 million in lost tax revenue for FY 2020-21. Based on that figure, the exemptions also cost local governments approximately \$138 million in the same fiscal year. Expanding the exemption to include items purchased for use in zoo operations by a qualifying farmer would reduce State and local tax revenue further, but by an unknown amount. The revenue loss is expected to be minimal relative to the State's nearly \$8 billion in annual sales tax collections.

The revenue loss cannot be quantified because there is no data available on how many North Carolina qualifying farmers operate zoos.

Part 2. Create Sales Tax Exemption for Certain Items Associated with Wildlife Management

Part 2 would minimally reduce State and local Sales tax revenue.

Background

Under North Carolina tax law, sales of tangible personal property are subject to sales or use taxes unless the tangible personal property is specifically exempted from tax in statute. The bill amends G.S. 105-164.13 by exempting from sales tax the same items exempt under the qualifying farmer exemption when the purchase of those items meets the PCS's criteria related to wildlife conservation.

Fiscal Impact

Creating this new sales and use tax exemption would reduce State and local sales and use tax revenue by an unknown amount. The revenue loss cannot be quantified because there is no data available on how many North Carolina persons may apply for and receive a sales tax exemption certificate for purchases related to wildlife conservation, and how much money those persons would spend on otherwise-taxable items using the certificate.

Part 3. Expand and Modify the Property Taxation of Wildlife Conservation Land

Part 3 will minimally reduce local property tax revenues.

Background

Under current law, farmland may be taxed at its present-use value (PUV) as opposed to its fair market value (FMV). The difference between the taxes due on the land at its FMV and its PUV are



“deferred taxes”. When the land loses its eligibility for the PUV program, deferred taxes for the previous three years become due and payable with interest.

In 2008, the General Assembly created a similar property tax incentive program for wildlife species and habitat protection. In 2018, the General Assembly expanded this program to include land managed as a preserve for hunting, fishing, shooting, or wildlife observation activities.

Section 3 of the PCS modifies and expands the property tax classification of wildlife conservation land. The PCS provides that additional acres may qualify for the program once the initial 20-acre requirement is met, provided that the additional property is at least one acre and meets program ownership and use requirements. The PCS also increases the acreage cap on land that qualifies for wildlife species and habitat protection from 100 to 200 acres and makes several changes in ownership requirements that make the program consistent with PUV requirements.

Fiscal Impact

While the changes in the PCS will potentially allow more acres to qualify for special property tax treatment, it is not known how many additional acres will qualify. Therefore, the fiscal impact is unknown, but is expected to be minimal to local governments.

TECHNICAL CONSIDERATIONS

N/A.

DATA SOURCES

North Carolina Department of Revenue

FISCAL ANALYSIS MEMORANDUM – PURPOSE AND LIMITATIONS

This document is a fiscal analysis of a bill, draft bill, amendment, committee substitute, or conference committee report that is confidential under Chapter 120 of the General Statutes. The estimates in this analysis are based on the data, assumptions, and methodology described in the Fiscal Analysis section of this document. This document only addresses sections of the bill that have projected direct fiscal impacts on State or local governments and does not address sections that have no projected fiscal impacts. This document is not an official fiscal note. If a formal fiscal note is requested, please email your request to the Fiscal Research Division at FiscalNoteRequests@ncleg.net or call (919) 733-4910.

